DUKE ENERGY

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June 22, 2018

VIA ELECTRONIC FILING

The Honorable Jocelyn G. Boyd
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, South Carolina 29210

Re: Duke Energy Carolinas, LLC's Petition for an Accounting Order to Defer Certain Capital and Operating Expenses
Docket No. 2018-_____-E

Dear Ms. Boyd:

Enclosed for filing, please find Duke Energy Carolinas, LLC's Petition for an Accounting Order to Defer Certain Capital and Operating Expenses.

Thank you for your attention to this matter. Should you have any question, please feel free to contact me.

Sincerely,

Heather Shirley Smith

Heather Shirley Smith

cc: Ms. Nanette Edwards, Esq., Office of Regulatory Staff
Ms. Dawn Hipp, Office of Regulatory Staff
Mr. Jeffrey M. Nelson, Esq. Office of Regulatory Staff

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

In re: Petition of Duke Energy Carolinas, LLC for an Accounting Order to Defer Certain Capital and Operating Expenses	)))))	**PETITION OF DUKE ENERGY CAROLINAS, LLC FOR AN ACCOUNTING ORDER TO DEFER CERTAIN CAPITAL AND OPERATING EXPENSES**

Duke Energy Carolinas, LLC ("DEC," or the "Company") hereby petitions the Public Service Commission of South Carolina (the "Commission") pursuant to S.C. Code Section 58-27-1540, S.C. Code Reg. 103-825, and other applicable rules and regulations of the Commission, for an accounting order for regulatory and financial accounting purposes authorizing the Company to defer in a regulatory asset certain incremental costs that have been or are being incurred by the Company since January 1, 2018, in connection with (1) the addition of the W.S. Lee ("Lee") Combined Cycle ("CC") Plant; (2) the ongoing deployment of the Company's new billing and Customer Information System ("CIS") (known as "Customer Connect"); and (3) the addition of the Carolinas West Primary Distribution Control Center ("CWPDCC").

The costs the Company seeks to defer in this Petition are (1) the related depreciation expense, property tax and incremental non-fuel operation and maintenance ("O&M") expenses associated with the Lee CC plant addition, as well as the carrying cost on the investment and the deferred costs at its weighted average cost of capital; (2) incremental O&M expenses associated with the deployment of the Customer Connect program, as well as the carrying cost on the deferred costs at its weighted average cost of capital; and (3) the related depreciation expense associated with the CWPDCC, as well as the carrying cost on the investment and on the deferred costs at its weighted average cost of capital.

The request for relief set forth within the Petition would not involve a change to any of DEC's retail rates or prices at this time or require any change in any Commission rule, regulation, or policy. In addition, the issuance of the requested Accounting Order will not prejudice the right of any party to address the prudency of such costs in a subsequent general rate case proceeding. Accordingly, neither notice to the public at-large, nor a hearing is required regarding this Petition. In support of this Petition, DEC respectfully shows the Commission the following facts, and petitions the Commission for the following relief:

Name and Address of the Company

The correct name and post office address of DEC are:

Duke Energy Carolinas, LLC
Post Office Box 1321
Charlotte, NC 28201

Notices and Communications

The name and addresses of the attorneys of DEC who are authorized to receive notices and communications with respect to this Petition are:

Heather Shirley Smith, Deputy General Counsel
Duke Energy Carolinas, LLC
40 West Broad St, Suite 690
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and

Frank R. Ellerbe, III
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Description of the Company

DEC is engaged in the generation, transmission, distribution and sale of electric energy at retail in the western portion of South Carolina and the central and western portions of North Carolina. The Company also sells electricity at wholesale to municipal, cooperative and investor-owned electric utilities and its wholesale sales are subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). DEC is a corporation organized and existing under the laws of North Carolina, is authorized to transact business in the State of South Carolina and is a public utility under the laws of South Carolina. Accordingly, its operations in South Carolina are subject to the jurisdiction of the Public Service Commission of South Carolina pursuant to the provisions of Chapter 27 of Title 58 of the South Carolina Code of Laws.

Addition of the Lee CC Plant

The W.S. Lee Combined Cycle generating facility is a "2x1F" combined cycle generating facility, providing at least 750 MW[1] located adjacent to the existing Lee Steam Station in Anderson, South Carolina. The Lee CC plant provides state-of-the-art technology for efficiency and flexibility of operation, along with the best available technology for environmental controls.

[1] The total generation capacity of the Lee CC plant is still being evaluated. Modifications by the vendor to the turbine blades may have resulted in additional generation being available. The Lee CC plant is the most efficient generating plant in the Duke Energy fleet. Accordingly, it will continue to be among the first generating plants to dispatch, ensuring that any additional capacity will be used to provide customers with affordable, efficient energy.

The Company received the certificate of environmental compatibility and public convenience and necessity ("Certificate") for the construction and operation of the Lee CC plant from the Commission on May 2, 2014, in Docket No. 2013-392-E, Order No. 2014-408. Subsequently, on April 5, 2018, the Lee CC plant was placed in service. North Carolina Electric Membership Corporation ("NCEMC"), a long-time wholesale customer of Duke, exercised its option to purchase 100 MWs of the Lee CC plant. DEC owns the remainder of the capacity. The Company has invested approximately $583 million ($138 million on a South Carolina retail basis), net of the joint ownership, in the capital cost of Lee CC. The costs the Company seeks to defer are the return and depreciation on the capital costs, the associated incremental non-fuel O&M expenses, property taxes and the carrying cost on the deferred costs at its weighted average cost of capital of approximately $22 million on a South Carolina retail basis, estimated through mid-2019.

<u>The Customer Connect Program</u>

The Company's current CIS system is over twenty years old and is past the point where modular "bolt on" systems or upgrades are effective. Although state-of-the-art twenty years ago, the current CIS was not designed to efficiently support new capabilities, including personalized customer experiences, advanced pricing structures and billing options and tools for customers to better manage their energy consumption. While the Company has added functionalities to its legacy system over the years to meet emerging customer and business needs, the increasing complexity of adding newer technologies to an aged system has led to more system disruptions and longer time to recover from system outages. Accordingly, it is necessary to replace the current CIS with a modern customer service platform, referred to as Customer Connect. Customer Connect is the next generation customer platform with new customer engagement and integrated operations and analytics capabilities that will provide the customer with more choice, convenience and control over how they do business with the Company. Further, it will provide customer service representatives with better access to an array of customer-related information to better service customers. In addition, deployed smart meters will work in tandem with the grid and billing system, and allow the Company to offer a suite of programs for the benefit of the customer. DEC's objectives include providing customers with new payment options, improved awareness of their energy consumption and the information needed to manage their usage. Some of the programs include enhanced usage alerts, flexible due date options, advanced pre-pay options and a smart meter usage alert app. Although the Company has the ability without Customer Connect to offer some of these benefits and programs today, the programs are limited in their design, build and execution, given the constraints of the current billing system.

The Customer Connect Program began analysis and design in January 2018 and is currently planned to be fully implemented for DEC in 2022. Each year, beginning in late 2018, the Program will advance the final solution while providing value and new capabilities to customers throughout the deployment. The total cost to DEC for the Customer Connect Program is approximately $295 million ($70 million on a South Carolina retail basis), with approximately 50 percent reflecting the capital investment.

The costs the Company seeks to defer are the incremental operating expenses related to the deployment of Customer Connect and the carrying cost on the deferred costs at its weighted average cost of capital, which is approximately $6 million on a South Carolina retail basis, estimated through mid-2019. The deferred costs to be recorded on the Company's accounting records will be based on actual costs.

Addition of the Carolinas West Primary Distribution Control Center

The CWPDCC is part of an enterprise program whereby Duke Energy is updating and consolidating multiple regional centers into purpose-built, highly reliable and hardened facilities. The facility supports increased North American Electric Reliability Corporation ("NERC") reliability standard requirements for Critical Infrastructure Protection and Emergency Operations Preparedness. Maintaining the integrity of the electric grid is at the core of the Company's responsibilities and these new facilities will allow DEC to provide dependable and consistent service for many years into the future. The Company has invested approximately $127 million ($30 million on a South Carolina retail basis) in the capital cost of the CWPDCC. The cost the Company seeks to defer are the return and depreciation on the capital costs of approximately $5 million on a South Carolina retail basis, estimated through mid-2019.

Financial Consequences of this Request

The Company respectfully requests Commission approval to defer the aforementioned costs associated with the Lee CC facility, Customer Connect and the CWPDCC. For Customer Connect in particular, if the Company does not recover the incremental operating expenses in the year they are incurred, the Company has no future opportunity to recover a significant portion of the costs associated with this large investment absent approval of this deferral. Separately, under Generally Accepted Accounting Principles ("GAAP") and in accordance with the FERC's Uniform System of Accounts (as adopted by this Commission), the cost of the assets, such as Lee CC and CWPDCC, are recorded on the Company's balance sheet as "utility plant in service" and are charged to expense over the period in which these assets provide utility service and contribute to the earnings process. This systematic and rational allocation of an asset's costs over its service life and period of benefit is referred to as depreciation and amortization.

Depreciation and amortization allow for the matching of expenses associated with an asset to the revenue that the Company recognizes as a result of utilizing that asset to provide service. Similarly, O&M expenses are recorded in the period that the benefit is expected. Under GAAP, this is referred to as the matching principle and is a fundamental concept in the accounting model. As part of electric utility rate-making, annual depreciation and amortization expenses are included within the utility's Commission approved base rates. The incremental annual depreciation, O&M and property tax expenses that the Company expects to incur as described above are not currently included within the Company's existing base rates. Therefore, it is not possible for the Company to "match" this expense with revenue to be collected. With such a mismatch of expense to revenue, this event is a fundamental departure from the matching principle.

Without the accounting treatment requested by the Company, these costs will continue to negatively impact the Company's financials. In its December 31, 2017 quarterly financial report filed with the Commission, DEC reported an annual return on common equity of 8.01 percent adjusted, for the twelve months ended December 31, 2017. On an adjusted basis, the Company's rate of return on jurisdictional common equity is less than the 10.2 percent approved by the Commission in DEC's last general rate case in Docket No. 2013-59-E. Without approval of this deferral and accounting request, the Company will face additional earnings degradation of approximately 59 basis points. This deferral and requested accounting order treatment will allow the Company to bridge the timing gap between the expenses associated with these investments to the revenue that the Company recognizes as a result of utilizing these investments to provide service.

Additionally, as the Company is deferring revenues from the Federal Tax Cuts and Jobs Act ("TCJA") for application in the Company's next rate case, it is appropriate and equitable to defer costs not currently in rates for consideration in the Company's next rate case so that the Commission and parties can evaluate the matter in a fulsome manner.

The Company believes that this request is consistent with the case law and policy in this State.[2] The request does not involve a change to any DEC rate or tariff. As a result, neither notice to the public nor a hearing is required. Absent the deferral, the Company will face earnings degradation from the increased expenses arising from the aforementioned projects. These effects could impair the Company's financial stability and ability to attract capital on reasonable terms.

Approval of this deferral request will benefit the Company and its customers by helping to assure investors' confidence in DEC, and help assure access to needed capital on reasonable terms and equitable treatment as to deferred costs and revenues. To mitigate the impact to customers of the requested deferral, DEC will propose in its next rate case to amortize these deferred costs over a multi-year period.

Impact of the Federal Tax Cuts and Jobs Act

This Petition reserves the expenses identified herein and incurred as the Company evaluates the impacts of the Federal TCJA, which is the subject of Docket No. 2017-381-A (the "Tax Reform Docket"). The Company has committed in the Tax Reform Docket to deferring as

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[2] See, e.g., *In re: Petition of South Carolina Electric & Gas Company for an Accounting Order to Defer the Depreciation and Amortization Expenses as Well as the Incremental Operation and Maintenance Expenses That Will Be Incurred as a Result of Complying with the Cyber Security Regulations Promulgated by the United States Nuclear Regulatory Commission*, Docket No. 2015-372-E, Order No. 2015-790 (Nov. 4, 2015); *In the matter of: Duke Energy Carolinas, LLC's Petition for an Accounting Order to Defer the Incremental Costs Associated with Cliffside Steam Station Unit 6, Dan River Combined Cycle Generating Facility and the McGuire Nuclear Station Uprate Project*, Docket No. 2013-99-E, Order No. 2013-237 (Apr. 10, 2013).

a regulatory liability (1) all excess accumulated deferred income tax balances created in 2017 by the TCJA and (2) the estimated difference between customer revenues actually billed and what would have been billed taking into effect the reduced corporate tax rate beginning January 1, 2018, until the Commission determines the timing and nature of returning such benefits to retail customers ("deferred tax benefits"). As the Company defers revenues, it is important to defer material costs as identified in this Petition as well such that total impact of the changes affecting the Company's business can be evaluated in future rate proceedings.

Conclusion

An accounting order granting the relief that the Company seeks will not preclude the Commission or parties from addressing the prudency of the costs deferred for the aforementioned projects in the next general rate proceeding filed by DEC. Therefore, as described above, the Company respectfully petitions the Commission to allow DEC to defer into a regulatory asset (1) the related depreciation expense, property tax, and incremental non-fuel O&M expenses associated with the Lee CC plant addition, as well as the carrying cost on the investment and the deferred costs at its weighted average cost of capital; (2) incremental O&M expenses associated with the deployment of the Customer Connect program, as well as the carrying cost on the deferred costs at its weighted average cost of capital; and (3) the related depreciation expense associated with the CWPDCC, as well as the carrying cost on the investment and on the deferred costs at its weighted average cost of capital herein effective January 1, 2018.

Dated this 22nd day of June, 2018.

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